Telstra retail shareholder meeting 2019

Andrew Penn – Chief Executive Officer

Telstra at a glance

Telstra is Australia's leading telecommunications and technology company
Our purpose is to build a connected future so everyone can thrive

Size and scale

- 1.3m shareholders
- A$47b market capitalisation
- Public ASX20 company
- #398 on Forbes' Global 2000
- A-/A2 investment grade rating from S&P and Moody's
- Awarded Australia's most valuable brand by Brand Finance Australia 2019

Customers and people

- 18.3m retail mobile services
- 3.7m retail bundle and data services
- ~350 retail stores around Australia
- We operate in 20+ countries and territories outside of Australia
- We directly employ more than 29,000 people

Leading in sustainability

- Helped around one million customers in vulnerable circumstances to stay connected
- One of three Australian companies to be included in CDP's 2018 Climate A List
- Provided digital capability training to almost 36,000 people

Full year 2019 results | Headlines

Reported Total income[2] $27.8 billion, -3.6%	Guidance basis[1] Total income[2] $27.8 billion, -2.6%	
Reported EBITDA $8.0 billion, -21.7%	Guidance basis[1] EBITDA excluding restructuring $9.4 billion, -11.4%	Underlying[3] EBITDA $7.8 billion, -11.2%
Reported NPAT: $2.1 billion, -39.6% EPS: 18.1 cents FY19 total dividends: 16 cps[5]	Guidance basis[1] Capex: $4.1 billion FCF: $3.2 billion	In-year nbn headwind[4] ~$600 million Underlying EBITDA less in-year nbn headwind[4] ~–4%

1. This guidance assumed wholesale product price stability and no impairments to investments or core assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout and migration in FY19 was broadly in accordance with the nbn Corporate Plan 2019. The guidance was provided on the basis of AASB15. Capex was measured on an accrued basis and excluded expenditure on spectrum and externally funded capex.
2. Total income excludes finance income.
3. Underlying EBITDA excludes one-off nbn DA receipts less nbn net C2C, and guidance adjustments.
4. In-year nbn headwind defined as the net negative recurring EBITDA impact on our business based on management best estimates.
5. Total dividends of 16 cents per share fully franked comprising total ordinary dividend of 10 cents per share and total special dividend of 6 cents per share.

T22

Our purpose is to build a connected future so everyone can thrive

Strategic pillars	Radically simplify our product offerings, eliminate customer pain points and create all digital experiences	Establish a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout	Greatly simplify our structure and ways of working to empower our people and serve our customers	Industry leading cost reduction program and portfolio management		
Enabled by our up to $3b investment program	New digital platforms					
	Australia's largest, fastest, safest, smartest and most reliable next generation network					
Delivering	Market leading customer experience	Simplified products, business and operating model	Extended network superiority and 5G leadership	Achieve Global High Performance Norm in employee engagement	Net cost productivity of $2.5bn by FY22	Post-nbn ROIC > 10%[1]

1. Post-nbn defined as FY23 and beyond on AASB16 basis

Leading into the 5G era

In the past year we've led the world with many of our 5G achievements

- 1st operator to launch 5G in the southern hemisphere and among the first globally
- Six world firsts on 5G and eight Australian firsts
- Now moving to next stage of 5G and preparing for 5G stand alone, mm wave, low band and 2nd generation chip sets

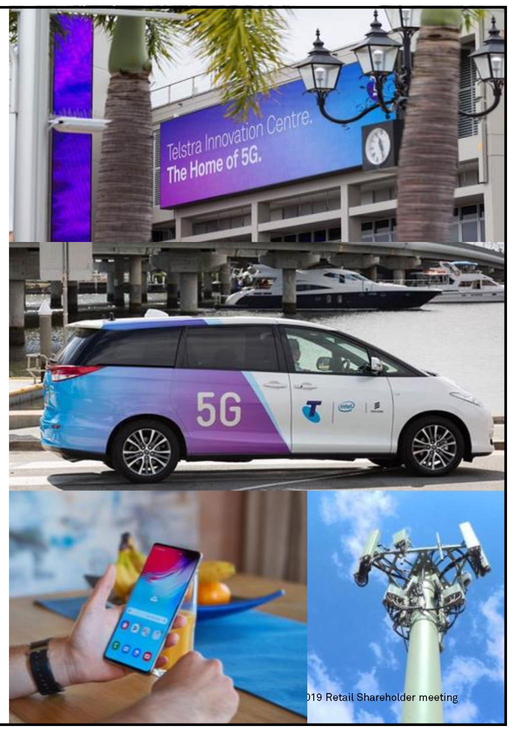
First in Australia with leading 5G devices

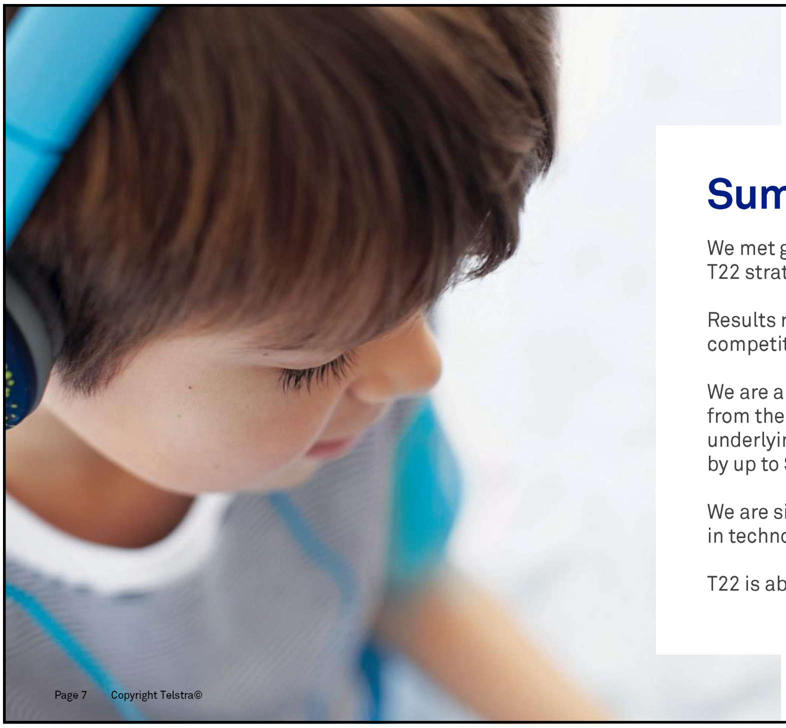
- Samsung Galaxy S10 5G, HTC Hub 5G, Oppo Reno 5G and LG V50 ThinQ

Rolling out 5G in major Australian capital cities (and selected regional centres)

- Current footprint focusses on 10 CBD locations and selected regional centres where more than 4 million people live, work or pass through every day
- By the end of FY20, we expect to increase our 5G coverage in area almost five-fold to reach at least 35 Australian cities

5G will bring incredible benefits to customers and mobile networks including supporting data growth at flat costs





Summary

We met guidance and built strong momentum behind T22 strategy

Results reflected impact of nbn and intense competition – this will continue

We are around half way through negative headwind from the nbn and we expect momentum in our underlying business excluding this headwind to grow by up to $500m in FY20

We are sitting at an incredibly exciting inflection point in technology, telecommunications and for Telstra

T22 is about positioning us in that world

Vicki Brady – Chief Financial Officer

Group results: income by product

	FY18	FY19 change $m	FY19		
Mobile	$10,380m	165	$10,545m	1.6%	Postpaid handheld +1%; Hardware $283m growth offset Prepaid/MBB weakness
Fixed excl. one-off nbn C2C[1]	$5,819m	-543	$5,276m	-9.3%	Flat bundle/FBB revenue with -26% standalone voice & -20% wholesale revenue
Recurring nbn DA[2]	$642m	142	$784m	22.1%	Growth reflects nbnTM network rollout
Data & IP	$2,556m	-198	$2,358m	-7.7%	IPVPN ARPU pressure and accelerated ISDN decline
NAS	$3,627m	-150	$3,477m	-4.1%	2% growth excl. nbn commercial works and shift to higher annuity mix
Global connectivity[3]	$1,584m	121	$1,705m	7.6%	Mix shift to more profitable products; +2.1% growth in constant currency
Other[4]	$1,452m	-77	$1,375m	-5.3%	Lower Foxtel from Telstra and cable revenue
New business[5]	$200m	-32	$168m	-16.0%	Strong Health growth of $35m, offset by Ooyala sale
Underlying	**$26,260m**	**-572**	**$25,688m**	**-2.2%**	**Underlying income decline $572m or -2.2%**
One-off nbn DA and connection	$2,282m	-166	$2,116m	-7.3%	Decline on lower nbn disconnections vs PCP
Guidance basis[6]	**$28,542m**	**-738**	**$27,804m**	**-2.6%**	**Guidance basis income decline $738m or -2.6%**
Guidance adjustments	$299m	-296	$3m	NM	
Total Reported	**$28,841m**	**-1,034**	**$27,807m**	**-3.6%**	**Reported income decline $1,034m or -3.6%**

1. Fixed excludes one-off nbn connection income FY19 $106m (FY18 $113m) and includes TUSOPA income FY19 $159m (FY18 $167m). One-off nbn connection income included in one-off nbn DA and connection.
2. Recurring nbn DA restated to include ISA power.
3. Global connectivity includes other income FY19 $5m (FY18 $15m).
4. Other includes media, nbn commercial works (sale of assets), M&A, and miscellaneous.
5. New business includes Telstra Health and Ooyala.
6. Refer to Full Year Results and Operations Review – guidance versus reported results reconciliation schedule.

Group results: operating expenses[1]

	FY18	FY19 change $m	FY19	
Sales costs - nbn payments	$941m	410	$1,351m	43.6%
Sales costs - other	$7,184m	296	$7,480m	4.1%
Fixed costs - underlying[2]	$7,561m	-456	$7,105m	-6.0%
Fixed costs - other[3]	$1,878m	133	$2,011m	7.1%
One-off nbn DA and nbn C2C	$445m	58	$503m	13.0%
Guidance basis[4]	**$18,009m**	**441**	**$18,450m**	**2.4%**
Restructuring	$286m	515	$801m	NM
Other guidance adjustments	$327m	257	$584m	NM
Total reported	**$18,622m**	**1,213**	**$19,835m**	**6.5%**

Sales costs increased including:
- nbnTM network payments +$410m
- Other +$296m mostly mobile hardware plus NAS & Global

Underlying fixed costs decreased $456m in FY19 with ongoing productivity including ~6k direct FTE reduction with 4.86k reported reduction in FY19

~**$1.17b productivity** achieved since FY16 **and on track for $2.5b** cumulative by FY22

Fixed cost reduction to accelerate in FY20 with $660m target

Total operating expense rate of growth has continued to slow, **with growth of 1.9% in 2H vs 3.0% in 1H** excluding restructuring costs and guidance adjustments

In FY20, we expect total operating expenses excluding restructuring costs and impairments to decline, with reductions in underlying fixed to offset increased nbnTM network payments and other variable costs

AASB16 leases adoption will result in $450m of rent costs shifting out of Fixed costs – underlying to below EBITDA in FY20

1. Restated due to accounting changes and review of fixed costs - underlying and other inclusions. Sales and fixed costs exclude costs associated with one-off nbn DA and nbn cost to connect (C2C).
2. Fixed costs - underlying was ~$8.3b in FY16 and targeted to decline by our net cost productivity target of $2.5b by FY22.
3. Fixed costs - other includes items supporting revenue growth including relevant NAS costs, mobile lease, and product impairment.
4. Refer to Full Year Results and Operations Review – guidance versus reported results reconciliation schedule

Capital management framework

Fiscal discipline			
Objectives	Maximise returns for shareholders	Maintain financial strength	Retain financial flexibility
Principles	1. Committed to balance sheet settings consistent with an A band credit rating 2. Pay fully-franked ordinary dividend of 70-90% of underlying earnings[1,3] 3. Target capex/sales ratio of ~14% excluding spectrum from FY20[4] 4. Maintain flexibility for portfolio management and strategic investments		

Return in the order of 75% of net one-off nbn receipts to shareholders over time via fully-franked special dividends[2,3]

1. Underlying earnings is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 2) and guidance adjustments. Guidance adjustments include one-off restructuring costs, impairments in and to investments or property, plant and equipment and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.
2. "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
3. The dividend is subject to no unexpected material events, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.
4. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases.

Group results: dividends

	FY18	FY19	CHANGE
Earnings per share			
Basic earnings per share (cents)	30.2	18.1	-40.1%
Underlying basic earnings per share (cents)[1]	21.7	17.0	-21.7%
Dividends (fully-franked)			
Ordinary dividend	15.0	10.0	-33.3%
Special dividend	7.0	6.0	-14.3%
Total dividends	**22.0**	**16.0**	**-27.3%**
Payout Ratios[3]			
Ordinary dividend of underlying earnings[3]	69%	59%	
Special dividend of net one-off nbn receipts	65%	63%	
Total dividends of earnings per share[3]	**73%**	**88%**	

FY19 total dividends of 16 cents per share (cps) fully franked, including total ordinary dividends of 10cps and total special dividends of 6cps

Final dividend of 8cps fully franked, including ordinary dividend of 5cps and special dividend of 3cps

2H19 dividends consistent with 1H19

FY19 ordinary dividend payout of underlying' earnings[1,2] below indicative 70% to 90% range with the board taking into account capital management framework

64% of cumulative net one-off nbn™ receipts received life to date[4] returned via fully-franked special dividends[1,2]

Overall FY19 dividend payout ratio of 88%

Underlying earnings excludes restructuring costs, impairments and guidance adjustments as well as net one-off nbn receipts[1]

Remain committed to capital management framework including maintaining balance sheet settings consistent with an A band credit rating

1. Underlying earnings is defined as NPAT from continuing operations excluding net one-off nbn receipts and guidance adjustments. Guidance adjustments include one-off restructuring costs, impairments in and to investments or property, plant and equipment and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax. FY19 underlying earnings were $2,019m (FY18 $2,582m), net one-off nbn DA receipts less nbn net C2C less tax were $1,129m (FY18 $1,285m), and total guidance adjustments less tax and non-controlling interest were -$994m (FY18 -$276m).
2. The dividend is subject to no unexpected material events, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.
3. FY18 payout ratios have been restated consistent with restatement of earnings based on AASB15 and underlying earnings definition. Ordinary dividend payout ratio including guidance adjustments was 116% in FY19 (77% FY18).
4. "Life to date" defined as since beginning FY18 and implementation of new dividend policy with restated earnings based on AASB15.

Key areas of focus to deliver value

Executing our T22 strategy including delivery of $2.5b cost-out

Free cashflow including working capital, capex discipline and returns

Building value including:

- Mobile – Lifting transacting MMC with new plans and 5G
- Fixed - improving nbn resale economics
- Data & IP – optimising infrastructure investment, differentiation, and next-generation product innovation
- NAS – achieving mid-teens margins

Growth opportunities including through 5G, IoT, Global Connectivity, Infrastructure and Health

FY20 guidance

	FY19	FY20 guidance[1] Based on new accounting standards (Updated 2Sep 2019)
Total income[2]	$27.8b	$25.3b to $27.3b
Underlying EBITDA[3] - Included in-year nbn headwind[4]	**$8.2b**	**$7.4b to $7.9b** ~-$0.6 to ~-$0.8b
Net one-off nbn DA receipts less nbn net C2C	$1.6b	$1.3b to $1.7b
Restructuring costs	$0.8b	~$0.3b
Capex	**$4.1b**	**$2.9b to $3.3b**
Free cashflow after operating lease payments[5,6]	**$3.1b**	**$3.3b to $3.8b**

1. This guidance assumes wholesale product price stability and no impairments in and to investments or property, plant and equipment and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn rollout and migration in FY20 is broadly in accordance with the nbn Corporate Plan 2020. Guidance is provided on the basis of AASB16 Leases and assumes impacts consistent with management estimates and current interpretation of the standard. Capex is measured on an accrued basis and excludes expenditure on spectrum and externally funded capex and capitalised leases under AASB16 Leases.
2. Excluding finance income.
3. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, guidance adjustments and includes amortisation of mobile operating lease costs.
4. In-year nbn headwind defined as the net negative recurring EBITDA impact on our business based on management best estimates including key input of the nbn Corporate Plan 2020.
5. FY20 free cashflow defined as operating cash flows less investing cash flows less operating leases (reported in financing cash flow under AASB16 Leases).
6. FY20 free cashflow guidance includes ~$1b working capital increase including from exit of mobile lease plans, remaining outflows from restructuring costs announced in May 2019, and an increase in nbn receivables

Q&A

Disclaimer

These presentations include certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Telstra, which may cause actual results of Telstra include general economic conditions in Australia; exchange rates; competition in the markets in which Telstra will operate; the inherent regulatory risks in the businesses of Telstra; the substantial technological changes taking place in the telecommunications industry; and the continuing growth in the data, internet, mobile and other telecommunications markets where Telstra will operate. A number of these factors are described in "our material risks" section of our Operating and Financial Review (OFR) which is set out in Telstra's financial results for the year ended 30 June 2019 which was lodged with the ASX on 15 August 2019 and available on Telstra's Investor Centre website www.telstra.com/investor.

In addition to the risks and uncertainties outlined above, there are particular risks and uncertainties in connection with the implementation of Telstra2022 including the response of customers to changes in products, the risks of disruption from changes to the organisation structure; that detailed business plans have not been developed for the entirety of the strategy and the full scope and cost of Telstra2022 may vary as plans are developed and third parties engaged; Telstra's ability to execute and manage Telstra2022 in a sequenced, controlled and effective manner and in accordance with the relevant project and business plan (once developed) and Telstra's ability to execute productivity initiatives and realise operational synergies, cost savings and revenue benefits in accordance with the plan.

The assumptions underlying and the basis upon which we have provided our FY20 earnings guidance is set out on slide "FY20 guidance".

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AASB 15 superseded the existing accounting standards and interpretations for revenue and subscriber acquisition costs in the telecommunications industry. We have adopted AASB 15 from 1 July 2018 and applied the standard retrospectively to prior reporting periods from 1 July 2017 ('transition date'). As a result, comparatives have been restated where applicable. For further detail refer to Note 1.5 'Adoption of the new accounting standards' in full-year financial report.

All forward-looking figures in this presentation are unaudited and based on A-IFRS. Certain figures may be subject to rounding differences.

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